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ABSTRACT

Funding and enrollment issues facing higher education are considered in two articles. In "Funding for Higher Education Enrollment Shifts in the 80s," David S. Spence outlines the decline in number of traditional college-age students; the trend to older, part-time, place-bound students; the increasing demands for remedial, continuing, and occupation-related education; and how these developments may affect different kinds of institutions. State actions aimed at recognizing fixed and variable costs in higher education budgets are described. These actions are designed to enable institutional expenditures to be raised or lowered at a different rate than enrollment changes. As variations or program budgeting grows, legislatures are likely to check more closely on whether funds appropriated to higher education are spent specifically on the programs for which they are requested. In "An Institutional Perspective on Funding for Higher Education Enrollment Shifts in the 80s," L. Felix Joyner views the problems of enrollment shifts based on experiences with a state system composed of 16 universities (North Carolina). Many of the alternate funding proposals seek to lessen the financial distress for institutions that are still growing. This is viewed as politically and practically unsound, and it is suggested that minor adjustments to current funding practices be made, rather than adopting substantially different ones. (SW)

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Funding Higher Education in the 1980s: Responses to Enrollment Shift and Decline

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Introduction

Dealing with higher education enrollment growth and decline – at the same time – is new to most states in the South. The growth patterns of past years have had a common ring. In the 1960s nearly all state higher education institutions grew rapidly. In the 1970s growth slowed, but most public colleges and universities managed to increase enrollments modestly. The 1980s may be marked by comparatively sharp enrollment fluctuations and shifts, so that in a given year several institutions in a state may have enrollment increases while others have significant declines.

Funding higher education when enrollment trends vary among institutions poses special problems for educators and legislators. Adding to this are the shifts to more part-time study, to more students needing remedial work, and to more occupational-professional emphasis in academic programs. All of these trends have financial implications.

The Southern Regional Education Board's Legislative Advisory Council recently discussed many of the funding-enrollment issues with David S. Spence of the SREB staff and L. Felix Joyner of the University of North Carolina.

Spence outlined the decline in numbers of traditional college-age students; the trend to older, part-time, place-bound students; the increasing demands for remedial, continuing, and occupation-related education programs; and how these developments may affect different kinds of institutions. Spence described state actions aimed at recognizing fixed and variable costs in higher education budgets so that institutional expenditures can be raised or lowered at a different rate than enrollment changes. As variations of program budgeting grow, legislatures are likely to check more closely on whether funds appropriated to higher education are spent specifically on the programs for which they are requested, according to Spence.

Joyner viewed the problems of enrollment shifts from his perspective with a state system composed of 16 universities. Many of the alternate funding proposals seek to lessen the financial distress for institutions losing enrollment and thereby impose a penalty on institutions that are still growing, Joyner noted. He characterized this as politically and practically unsound and made a case for making minor adjustments to current funding practices rather than adopting substantially different ones.

Higher education financial issues will be no less important to educators and legislators in the 1980s than previously. SREB will continue its efforts to focus information and discussion on them (see back cover for recent SREB higher education finance information).

Funding for Higher Education Enrollment Shifts in the 80s

David S. Spence
SREB Research Associate

Changing enrollment patterns are already having a marked effect on higher education funding, and the pace of these changes may be expected to quicken through the 1980s. While enrollment increased slightly in 1979, it should be remembered that the statewide declines are not expected until 1981 or 1982. In fact, the slowdowns in enrollment over the past two years have come sooner than expected. Already, some institutions are experiencing declines while others grow.

There are several kinds of enrollment changes that will affect higher education funding practices. The most obvious is the shift from yearly enrollment increases to no-growth or absolute declines. Two assumptions about enrollment in the Eighties seem warranted. First, fewer students may be expected because of smaller numbers of 18 to 24 year olds. Second, a higher proportion of all students will be enrolling on a part-time basis. Fewer numbers of students, coupled with the tendency to study part-time, will mean ever greater declines in full-time-equivalent enrollment, on which appropriations have been based traditionally. Some states may not be subject to these declines statewide, but nearly all states will experience the imbalance caused by declines in some institutions as others continue to grow.

Besides the fewer numbers of students, the students will, on average, be older, more will be women, and more will be working and raising a family while studying part-time. This means that an increasing proportion of students will be place-bound, commuting students. Correspondingly, as with the population in general, more students will be from urban and suburban areas and attending nearby institutions. More people in the population will already have degrees and will be seeking continuing education.

The changing kinds of students will mean that enrollments will continue to grow at some kinds of institutions and decline at others in the same system, depending on which institutions serve older, part-time students better and which are best located to take advantage of the population centers in the state. Likely to maintain enrollments are major universities, with prestige as their drawing card, and two-year colleges, with their convenient locations and career-related courses. The ones likely to lose students are the smaller senior institutions in more rural areas. Urban institutions may be expected to grow because they are convenient to the place-bound, older, working, married students who must attend part-time.

> ". . .dealing with growth and decline in the same system at the same time is new to the South."

Within institutions, enrollment will decline in some programs, like teacher education, and increase in others, like business administration. The aspect of the 1980s enrollment picture that will most challenge financing procedures will be the variation in enrollment changes among different institutions. Major universities and well-located institutions may never see a decline in student numbers, while in the same state other institutions will lose enrollment. This problem of dealing with growth and decline in the same system at the same time is new to the South.

Overall, higher education will lay claim to increased funding, because of inflation and for other reasons. Declining enrollments do not necessarily mean proportionate savings, because some costs simply cannot be reduced quickly, such as those for general administration and tenured faculty. Also, higher education will propose new bases for increased funding, especially in the areas of research, new forms of public service, and the instruction of different kinds of students.

But there are political and economic circumstances that may combine with the stabilizing or declining enrollments to reduce higher education's current share of state appropriations. First, the state priorities for services to the elderly, public health care, transportation, and energy may move even further ahead of higher education. Second, there is increasing concern that people are overtaxed and that states spend too much. Formal limits on state spending are facts in several states and are being considered in even more.

With state appropriations harder to come by, the financing picture is more cloudy as enrollment declines begin in some institutions. Several changes may be expected in the financing practices as higher education positions itself for the enrollment declines and as state government responds to these actions.

At least three issues will be prominent, all related to the changing enrollment patterns and affecting financing policy. First, the states will press for more distinct institutional roles as institutions attempt to expand their service areas. Second, as enrollments decline some state policymakers may suggest reducing funding in the same manner as it was added, while institutions will propose new ground rules for funding enrollment-related activities. Third, states will have to decide which proposals for new kinds of financing are in the state's interest and which are not. These new funding bases may include those to preserve or increase quality, and those to establish new programs.

In anticipation of the enrollment declines and shifts among institutions within a state, the colleges have sought to stake out programs, services, and potential student populations that will secure their roles through the 1980s. The competition for expanded missions is coupled with increased statewide concern and action to outline more definitively the mission of each institution in a system in order to prevent unnecessary duplication. The plans for clearer institutional differences, however, depend on the capacity of financing policies to accommodate them. These financing procedures will be judged by their equity in distributing funds to each different institution. If the institutional roles become distinctive, the goal of equity will become as much the provision of different funds for different functions as it is the provision of similar funds for similar activities. Viewing financial equity to include sensitivity to differences as well as to similarities in institutional roles will be more necessary.

States are using or considering several means to finance this new type of equity. Kentucky, Virginia, and South Carolina are using specific faculty salary averages derived from distinct peer groups of institutions, nationwide. Several states use formulas that recognize different funding for levels of study, kinds of discipline, and the research/instructional balance of the institution. Several states provide for special funding of research and public service areas for institutions with those special missions. Kentucky and Texas appropriate added funds for the research mission based on a percentage of non-state research support. Tennessee is proposing distinct funding for the public service activities of the community colleges and universities. Moreover, this funding will vary – from a higher level at urban Memphis State to lower levels at the other universities and two-year colleges. Tennessee also is considering special allocations for research activities based on what each university spends on research funded by non-state sources.

Several states, including Tennessee and Ohio, recognize the extra resources required for serving disadvantaged students, and provide extra funding for institutions assigned this role. These actions show that policies can be tailored to equitably finance larger differences among institutions, once such roles have been established.

Dealing with the second issue of simultaneous enrollment growth and decline in the same system points up the need to refine financing procedures so that institutions in both situations are funded adequately. There is the concern that quality would suffer if student-based funds were withdrawn at the same rate at which they were added in the past. However, it may also be true that the enrollment-based subsidies during growth were in excess of efficient costs. Higher education usually claims that any income exceeding efficient cost was used to build quality in a growing institution, and that this funding margin for quality would be lost if resources were to be taken off as they went on.

There are further considerations, however. Given limited state resources, financing policies that provide extra subsidies to ease the transition of institutions losing enrollment may also have to fund growing institutions at a lower rate than when all institutions were growing. But, when institutions in the same system are both growing and declining at the same time, it will be difficult for the growing ones to see some of their potentially larger subsidy diverted, especially when many of the growing institutions do not foresee any future enrollment decline. In Tennessee, where this is being proposed, there is already resistance by the larger, growing universities.

> ". . .state priorities for services to the elderly, public health care, transportation, and energy may move even further ahead of higher education."

There are several ways that financing may change to adapt to declining or uneven institutional enrollment patterns. The two most common ways are: first, to establish ranges of enrollment changes, within which both decline and growth are treated the same; and second, to base enrollment funding on a closer inspection of how changing numbers of students actually affect instructional, administrative, and support costs.

The first method may create a range for yearly changes in enrollment, inside of which no new resources would be withdrawn or given. Tennessee is using a two percent plus-or-minus range. This means that if an institution should have a four percent *decline* in enrollments, only a two percent adjustment would be made in the budget. And an institution with an enrollment *increase* of four percent would be granted additional resources of only two percent.

Minnesota established a different policy. In 1976, the state declared that enrollment increases would no longer be funded and that the cost of more students would have to be covered through tuition and fees. This removed the incentive for the large institutions to keep adding more students while it freed some state money to help other institutions adjust to declining enrollments.

Other states are setting maximum percentages that funding can change in any one year. Florida is applying a version of this principle, even though enrollment increases are expected. The university system and legislature agree on enrollment projections for each institution with the understanding that deviation above or below these projections will not affect the actual amount of funding. Florida hopes that this process may

increase quality so that institutions are better able to concentrate on consolidating their existing resources, instead of increasing enrollments each year to gain extra funding.

In states where these strategies are being tried, the approach is to apply them systemwide, so that the same principles hold for institutions with enrollment gains as for those experiencing enrollment declines. The reasoning is that growing institutions do not have to increase their costs in the same amount for each additional student – that is, most institutions have at least some room for more students and are able to add students without increasing resources at the same rate. Also, several states that are trying these steps are attracted to the way in which they remove the incentive for recruiting even more students at the largest, growing institutions. These disincentives come from funding the additional students at lesser rates. Some states are hoping that students who would normally go to the more popular colleges instead will enter the ones with declining enrollments and thus help to balance the entire system.

> "Viewing financial equity to include sensitivity to differences as well as to similarities in institutional roles will be more necessary."

There is a further reason why the funding rates are reduced for growing institutions even as they are increased for colleges losing enrollment. And it is simply that this must be the case unless a state is willing to increase higher education's share of all state appropriations.

Another way of adapting statewide funding practices to take into account enrollment growth and decline in the same system is to examine how costs will actually change as enrollments change. In one approach, the funding process specifies which activities depend on enrollments, what areas do not relate to enrollment changes, and on what funding should be based in budget categories not directly related to enrollment.

The clearest examples are in states which use formulas in funding. Most formulas do link instructional resources to enrollment changes but also recognize non-enrollment factors as providing the base for other budget areas. For instance, funds for plant maintenance are typically based on square footage, research funding on the amount of non-state funding received, and utilities on the basis of actual cost estimates. This separation of enrollment from unrelated budget areas and the establishment of different criteria for funding the non-instructional areas keeps total funding from decreasing as fast as the rate of enrollment declines. Of course, this also means that institutions with growing enrollments will be funded less than would be the case if all budget areas were based on enrollments.

This follows logically if we acknowledge the existence of fixed costs, which do not have to change as enrollments change, and variable costs, which do. Fixed costs include those for institutional administration, research, and plant operations. One kind of variable cost is instruction.

Students may be added without increasing administrative and other overhead costs, though some additional faculty may be required. However, as enrollment declines, the same overhead items may be required even though there are fewer numbers of students. While faculty are a more variable item that can be reduced as enrollments decline, at least some parts of instructional costs are fixed due to tenure and other academic program limitations.

In a marginal cost funding approach, last year's budget with last year's number of students is brought forward as a base for the new year's funding. The base is adjusted up or down by considering only the numbers of students that represent increases or decreases compared to last year's total enrollment, and what costs these added or reduced numbers will require. These extra or fewer students are funded only to the extent that their numbers actually require additional or less resources or costs. For small enrollment shifts of two to three percent it is unlikely that the changed number of students would require changes in the more fixed overhead costs.

In Indiana and Ohio, this marginal funding approach results in only about one-third of the state dollars that would normally follow additional students if all costs were assumed to increase at the same rate as enrollments. However, funding enrollment changes by considering only variable costs also means that an institution would lose only one-third of what might be lost if it loses students.

> ". . .growing institutions do not have to increase their costs in the same amount for each additional student. . ."

If this funding procedure is followed, institutions with declining enrollments will experience a lesser rate of funding decline, and conversely, growing institutions will experience a smaller rate of increase in funding per student.

States are using others ways to modify financing policies away from a direct relationship with enrollment changes. Virginia has established funding floors, in which institutions dropping below set levels of enrollment still receive a certain level of funding, presumably to cover fixed costs. These limits are 2,500 students for four-year institutions and 1,500 students for two-year colleges.

Another way to adapt financing practices to treat growing and declining institutions fairly is to use actual costs. Institutions claim that enrollments shift unevenly between programs. A college conceivably could lose students overall but still need more money, if there were a shift by students from lower cost to higher cost programs. Of course, the reverse should mean less costs even with more enrollment. Higher education also requires

substantial lead time to shift faculty when students shift among programs, as is now happening between teacher education and business administration.

> "A college conceivably could lose students overall but still need more money, if there were a shift by students from lower cost to higher cost programs."

Higher education may also respond to the impending enrollment declines by proposing different funding bases, including those recognizing new kinds of students, qualitative improvements, and new or previously non-state supported activities.

As part-time students increase as a percent of all students, states are considering subsidizing part-time students at a higher rate. Studies from Wisconsin indicate that part-time students may require nearly as much support cost and services as full-time students. Also, there is a recommendation in Ohio that, because of the extra services needed daily, full-time students who live on campus should be funded at a higher level than full-time students living off campus. In several states, special funding exists for the greater numbers of students requiring remedial instruction.

In terms of funding for improved quality, the change may be more of degree than of kind, since financing practices in all states provide for such proposals. It is not uncommon for qualitative improvement to be a distinct part of the financing process, as in Alabama, Florida, North Carolina, Tennessee, Indiana, and Ohio. More use of these qualitative bases, such as for faculty development, may be expected as alternatives to enrollment-based funding become more common.

As factors other than student numbers are introduced, funders will want these factors defined clearly and in terms of how they will benefit the institution and the state. The key question will change from "How much more do you need?" to "For what is it needed?" The answers are bound to be more specific to individual institutional situations, considering that institutions differ greatly in terms of current cost patterns, enrollment prospects, and levels of quality.

The emphasis on funding the distinct needs of specific institutions implies several changes in the state/higher education financing relationship.

First, program budgeting, the tying of line-items to specific instructional, research, or public service programs, may grow. More justification may be required – not only what salaries or equipment or other line-items the funds will be used to buy, but how these resources will be combined to form programs that will lead to services that are valuable to the state. For example, Indiana presents its budget in terms of the direct services higher education provides in the areas of instruction, research, and public service. All support activities, and all line-items, are related to these services.

As dollars begin to follow distinct institutional needs and not just student numbers, these needs will not only be justified in program form as services to the state, but will also be compared across institutions. In many states, including North Carolina, an institution's new program requests are compared with all others and placed in priority according to state or system needs and revenue levels.

Another effect of the greater reliance on special or non-enrollment reasons for funding is that, once the case has been made for a certain kind of funding need, funders will be more likely to follow-up and evaluate whether the funds actually are being spent on those needs. This is simply a result of proving by expenditure, that *what* was specifically requested was needed.

Finally, while some institutions lose and others gain enrollment in the same state system, there may be more detailed monitoring of individual institutional financial conditions, as a state tries to insure the most effective use of its resources. The state's interest may require the definition and inspection of indicators that will inform statewide leaders of existing or impending low levels of cost-efficiency in institutions with declining enrollments. For example, the Wisconsin state system has established measures to indicate when an institution has fallen below a designated level of cost-efficiency. These indicators may include relationships of various kinds of

> "More justification may be required. . . how these resources will be combined to form programs that will lead to services that are valuable to the state."

revenues and expenditures, such as the ratio of tuition to state appropriations or the percent that each is of total educational expenditure. Other measures being used include total cost per student, support cost per student, auxiliary cost per student, and fixed instructional cost per student. The ultimate purpose is to inform statewide leaders when the loss of enrollment in a specific institution becomes so great that its productivity and financing should be reexamined.

In summary, many states are considering changes in financing practices that will help higher education adapt to the environment of the 1980s. The purpose of these changes seems to be a financing process that is more sensitive to different institutional roles, to growth and decline in the same system, and to services provided by colleges. As study becomes action, we can expect substantial changes in how colleges are financed.

An Institutional Perspective on Funding for Higher Education Enrollment Shifts in the 80s

L. Felix Joyner
Vice-President for Finance
University of North Carolina

From an institutional perspective, I shall also comment on the prospects and problems related to the changing ways of funding higher education as enrollment patterns become less stable – changes which Mr. Spence has summarized well from a regional viewpoint. My perspective is one influenced by my experiences with the University of North Carolina System where we are not funded on a formula basis and do not have some of the specific funding problems faced by "formula" states.

I agree with several points that have been made, including statements that:

- The enrollment-driven formula is the method most commonly used today for funding higher education institutions.
- The principal focus of this funding method is as a means of securing funds and not necessarily a part of a process that includes both the request and allocation of funds. I believe this permits a significant measure of institutional discretion in the choice of specific expenditures – a major plus in the use of formula budgeting until this point in time – and a major consideration as we consider alternate methods.
- To date it appears that most states are seeking to buffer the financial effect of decreasing enrollments, or declining rates of enrollment growth, by modifying formulas that have stood them in good stead for a long period of enrollment growth. There is an understandable reluctance to discard the formula altogether and to establish some entirely new procedure.

For the institution, regardless of the particular funding formula in use, or whether funding is derived from some other basis, the prospect that the total budget will be less than it was during the previous fiscal period poses difficult choices.

Within a given budget, the administration of an institution feels that there is some appropriate mixture of quality and quantity of services currently being financed. With a reduced level of funding, this mixture must be adjusted accordingly. Are established student-teacher ratios to be changed? Should the range of course or program offerings be reduced? Should institutional maintenance programs be cut back? Regardless of the choices made to effect the required budget cut, there are undesirable effects from the institutional perspective.

Also, at the institutional level, accommodation to *any* reduced level of funding must be made specifically, not generally. Budget reductions – or curtailed expansions – must be identified and ultimately addressed in terms of objects of expenditure, i.e., personal services, supplies, equipment, etc. I have had the experience of attending a legislative committee where a "minor" budget reduction of one to two percent was discussed. This sequence ensued. My staff was assigned to work on a "possible cut" list. The list was reviewed and as a result, it was quickly recognized that the "fat" visualized from afar by the legislative committee was very thin, and we were quickly down to muscle and bone: i.e., people, utilities, printing, travel. When considering "minor" reductions, one very quickly faces possible cutbacks in levels of personal services, whether faculty or support staff. General discussions of even minor budget reductions that occur in legislative halls thus take on an ominous tone when viewed by the administrators of institutional budgets.

> ". . .the growing institution has a disadvantage, since its growth – in effect – subsidizes another's decline."

With these generalizations regarding the institutional effects of changes in funding methods, I would like to discuss some of the specific funding methods that are currently being used to address changing enrollment patterns. I will attempt to identify some of the particular effects that the various methods would have at the institutional level and for a higher education system.

One method provides a *choice* of whether to use the current or past year's enrollment as a funding base. This method has the effect of giving the institution experiencing a sharp drop in enrollment some lead time to plan for future cutbacks. However, if the drop in enrollment continues over a period of years, the advantages appear to be one-time in nature, and the one-year lag provides only temporary relief. Further, if this method were

applied on a system basis, there might appear to be uneven treatment even though each institution might have been given the same alternatives from which to choose.

Another suggested modification involves the use of an enrollment base which reflects the *average enrollment over the past few years.* Mathematically, this would muffle the effects of *any* annual variation in enrollments. However, if an erratic pattern of enrollment developed, with several years of increases and decreases in random combination, the simple mathematics of the formula would almost inevitably have unrealistic effects on the funding of institutional budgets and could produce a climate of instability and uncertainty that might compound the enrollment problem.

> ". . .it is much easier to explain a small modification of a familiar system than it is to unveil bold new plans or new schemes for funding higher education."

Another method of moderating funding changes is to *establish ranges* of yearly increases in enrollment within which no new resources are added or withdrawn. In a system setting, I am concerned about the equity considerations associated with this method. The institution with increasing enrollment is being penalized and the budget advantage accrues to the institution with a decreasing enrollment. I would find it difficult to respond to a legislator who points out that the funding method in use discriminates against the growing institution in his district. Of course, the legislator from the district with an institution of decreasing enrollment might compliment me on the ingenuity of the same method! A modification of this method which sets maximum percentages of funding change in any one year has the same disadvantages.

Under another method of buffering adverse financial effects, enrollments are projected by the system for each institution over a five-year funding period with the understanding that deviation above or below these projections will not affect the actual amount of funding. I would submit that the practicality of this approach must depend largely upon the existence of only a small variance between actual and the projected enrollments over the planning period, and on the ability to make adjustments during this period. Should there be large variations between actual and projected enrollments – either on the high or low side – serious problems of inter-institutional equity will arise. And I would point out that, to an increasing degree, most institutional enrollment projections, even if only for the next academic year, are less than precise.

The changes discussed thus far involve differences in the *enrollment* side of the funding equation. Other methods of change in established funding patterns are directed principally to the *dollar factor* of the formula. One such method includes an analysis of how costs will actually change as enrollments change. In this approach, the funding technique specifies what budget areas depend on enrollments, and what budget areas are not directly related to enrollment. While this approach has marked advantages for the institution in a declining enrollment situation, it has obvious disadvantages for the institution with an increasing enrollment. This revised system tends to reduce the dollar factor previously used for increasing budgets based on increasing enrollments, and it provides no offsets to the trade-offs upon which earlier acceptance of the formula device was based.

Another variation alters funding patterns by placing the primary emphasis on addressing fixed and variable cost issues. Fixed costs do not change as enrollments change; variable costs do. Again, as with the previous method, the growing institution has a disadvantage, since its growth – in effect – subsidizes another's decline. This is a difficult concept to defend beyond a very brief interval of time for adjustment.

Throughout our review of the various methods of changes in funding patterns, there are some indications that modified methods are being used – or designed – to influence institutional attendance patterns within state systems. While disincentives that come from additional students being funded at lesser rates might ultimately change traditional attendance patterns by exacting financial penalties on the growing institutions to provide financial floors for those in decline, I would suggest that such budgetary devices are clumsy and probably quite ineffective measures that would be difficult to defend either politically or educationally. There are no real parallels in higher education to the truancy laws and pupil assignment devices available to the public schools, and formula manipulation will not create such parallels.

While my comments regarding the various changes in funding patterns have tended to highlight the disadvantages of the modified methods, I think all these methods have some definite advantages, at least in the short run, within the context of a formula-based funding system. Let me list the principal considerations that emerge from the review of methods of adapting enrollment-driven formulas to a situation of enrollment decline.

> ". . .all of the modified methods of funding appear advantageous for institutions with declining enrollments, and. . .at some time during the next eight to ten years, most institutions are likely to find themselves in this enrollment situation."

First, we all recognize that higher education has been willing to ride the enrollment horse as long as it can carry us forward and build our budgets, and we are reluctant to propose changes in established patterns until we are forced to change by an unstable enrollment situation. All of these methods provide a readily available vehicle for making change and such changes require only limited explanation. As we all would acknowledge, it is much easier to explain a small modification of a familiar system than it is to unveil bold new plans or new schemes for funding higher education.

Second, all of the modified methods of funding appear advantageous for the institutions with declining enrollments and, although institutional variations will exist, generally speaking, at some time during the next eight to ten years, most institutions are likely to find themselves in this enrollment situation. In other words, the changes will likely be to the advantage of most institutions – although institutional variation within systems will still exist.

Third, these methods leave the basic funding system intact – and this is almost an elaboration of my first point.

Last, I think all interested groups – legislatures, governing and coordinating bodies, and institutional administrations – recognize that any new or revised funding method that changes the funding patterns of individual institutions will be subject to review and evaluation and that changes can and will be made when circumstances warrant.

". . .to an increasing degree, most institutional enrollment projections, even if only for the next academic year, are less than precise."

Where does this leave us? We all recognize the problem, and we recognize that all the solutions which are being proposed, or implemented, to address the problem appear to have both positive and negative effects for an individual institution in a given set of circumstances. Which method is best? Or which has the fewest potential pitfalls?

Some states are taking other steps to accommodate enrollment growth and decline in the same system without causing a marked deterioration in quality. These steps involve a re-examination of the basic methods of funding higher education, and they involve a complete review of the methods of requesting funds as well as some identification of their planned use. Personally, I think this is an approach that merits careful consideration.

I admit that I am not a supporter of an enrollment-based formula system for providing financial support to an institution or to a higher education system. I am sure that I have revealed some of my bias. In the University of North Carolina, enrollment is an important factor in establishing institutional budgets, but other expansions and qualitative improvements that are not enrollment-related are also important in establishing institutional budgets. As you would recognize, this makes it less disruptive to address a decrease in enrollment, since all budget additions were not the result solely of enrollment increases. I hasten to acknowledge that the structure and organization of the higher education system in a particular state might preclude this pattern of funding public higher education, and I will return to this critically important point later.

Whether one describes this non-formula method as an alternative system for consideration or as a theoretically sound but impractical approach, there are some special characteristics that deserve our careful attention.

First, the identification of academic programs and support services, as well as some identification of expenditure areas, becomes the front part of the more comprehensive budget process – a part of a continuing process and not simply a shorthand means of dealing with the legislature on appropriations. The ultimate purpose of the expenditure and the justification for the expenditure must be identified at the time of the initial budget request. This will require a full explanation throughout the budget process: from the institutional request, through the governing or coordinating board, for review by the executive branch budget staff and on to the legislature and its committee structure. Obviously, the justification must be sound and have understandable and desirable results. Regardless of the funding system, one result of the national attitude reflected by Proposition 13 has been, and will continue to be, a requirement for more explanation and justification *before* public funds are appropriated – whether for higher education or for other public purposes.

Second, under this approach, there is a likelihood that post-audits will be made to determine that funds are spent on what they were appropriated for and that the proposed results are achieved. Therefore, some means of identifying the actual achievements or results of the various programs must be put in place. It is in this area, however, that most of the potential hazards exist, for it is here that we begin to make higher education budgeting and financing look more like all other budgeting and financing. There is then the temptation for executive and legislative staff to treat higher education like all other parts of state government.

Last, as previously indicated, this non-formula system definitely provides a hedge against budget reductions associated with institutional enrollment declines, and thus meets the critical test of assuring some needed measure of institutional stability. The enrollment change becomes a part of the total institutional budget consideration, but not the only consideration, and, if offsets are needed, they can be addressed on a case-by-case basis.

We have discussed a number of alternatives and variations for future funding of higher education. I submit to you that there is no single right answer which can be applied in every state. The variables that must be addressed are too diverse for common treatment: the formal structural arrangements for governing or coordinating higher education, the relationships of the executive and the legislative branches to the higher education enterprise (and of equal importance perhaps – the relationship of the executive and the legislature to each other in the budget-making process), to mention only a few. Moreover, this diversity exists in the context of a generally accepted historical perspective which recognizes that higher education's objectives are not as definable or its output as measurable as those of other major government-supported activities and thus are not as susceptible to budget techniques derived for other purposes. It is my judgment that states must find their own particular methods to meet these objectives.

Other Current SREB Publications on Higher Education Budgeting

(1) **Budgeting of Postsecondary Education in the Eighties** (8 pages) *Financing Higher Education* No. 28 by David S. Spence

Examines the formula funding approach to higher education appropriations prevalent in most Southern states, outlines trends which may affect the use of current formulas, and discusses fixed and variable costs in campus budgeting.

(2) **Changing Higher Education Budgeting Practices: One State's Experience** (4 pages) by George B. Weathersby

A presentation to the SREB Legislative Advisory Council by the commissioner of the Indiana Commission for Higher Education on his state's experience with a new financing format with incentives to improve management and estimate future enrollment realistically.

(3) **Comparative Information on Higher Education in the SREB States** (50 pages) compiled by David S. Spence

Tables and graphs comparing the latest available information on revenues and expenditures, appropriations, tuition and fees, faculty compensation, enrollment, programs and degrees.

(4) **The Costs of Health Professions Education** (12 pages) *Regional Spotlight,* Vol. XIII, No.1

A major excerpt from a presentation by John A. Craig on the costs trends at health professional schools, which are predicted to double in the next five years, have grown 50 percent faster than the rest of higher education in the Seventies.

(5) **Fact Book on Higher Education in the South, 1977 and 1978** (77 pages) by James R. Mingle

This biennial release features selected statistics and trends to assist in planning for higher education, including a composite state-by-state statistical profile of higher education in the South and college enrollment projections for the Eighties.

(6) **Financing Higher Education in the 1980s: Fewer Students, More Dollars?** (8 pages) by Lyman A. Glenny

A description of the issues ahead when enrollments stabilize or decline while costs rise, including changes associated with increased part-time enrollment and expanding metropolitan institutions.

(7) **Higher Education Legislative Issues '79: Proceedings of SREB's 28th Legislative Work Conference** (44 pages)

Features information on current faculty salary levels in the South highlighting the differences among kinds of institutions and specific disciplines, and a presentation entitled "Faculty Salaries: How Much or What For?"

(8) **A Profile of Postsecondary Education in the Mid-80s: Implications of Part-Time Enrollment Trends** (8 pages) *Issues in Higher Education* No. 14 by David S. Spence

This mid-Eighties forecast of Southern postsecondary education assesses the role of increasing part-time attendance by women and older students on future full-time-equivalent enrollment levels, on different types of institutions, and on budgeting and planning for higher education.

(9) **State and Local Tax Ability and Effort** (131 pages) by Kenneth E. Quindry and Niles Schoening

This annual analysis provides a review of legislative activity in taxation as well as the latest available information comparing state and local tax performance for the 50 states and the District of Columbia. The report features profile tables on the taxing patterns of the 14 Southern states. The twelfth annual edition covering 1979 tax legislation and 1978 tax performance will be released in April. Previous editions are available upon request.

(10) **Tuition Policy in Public Higher Education** (8 pages) *Financing Higher Education* No. 27 by James R. Mingle

Examines tuition and the higher education budget process, tuition rationales, and different perspectives on tuition's role in financing public higher education in the South.

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